

AMZ Industries: Managing family business, what's next?

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Abstract

AMZ Industries (also known as AMZ) is one of the pioneer company in the furniture production industry in Kuala Terengganu, Terengganu, Malaysia. Interestingly, AMZ has joined by skilled personnel and it also has the latest technology in manufacturing processes that meet stringent guidelines set by international standard. The Germany Board Certification has recognized ABC as one of the manufacturers that has superior quality system. From the beginning of its inception, the industry grew to become the 1st choice among their clients. A unique combination of offering quality products and affordable prices to the clients is working

well. The company also doesn't have problems hold a mass production line as requested by clients as they have enough capacity to achieve it. Despite its success AMZ has faced several challenges that have not only affected the management, but also its business operation. This case study will look at the operational challenges and several issues faced by AMZ, internally and externally in the context of family business in small medium enterprises (SMEs) in Malaysia.

Keywords: Business challenges, family businesses, SMEs, business advisory services.

Introduction

“Father, founder of the company, son rich and grandson poor”

The above statement reflects the typical situation among family-owned businesses around the world, in particular small-medium enterprises (SMEs). In other words, the founder works and builds a business with his heart and soul, the son takes it over and is failed to manage and make it grow but enjoys the wealth, and the grandson inherits a dead business, empty bank account and a mountain of debts.

Every business setup or startup has a unique set of challenges and problems. The family business is no different. Lots of of these problems occur in corporate business environments, but can be inflated in a family business. Family business go through various stages of transformation and development over time. Many of these challenges will be faced by subsequent generations when they enter the business. Thus, this paper focuses on AMZ Industries in Kuala Terengganu, Terengganu, Malaysia and considers the key challenges and success factors in managing family business in small medium enterprises (SMEs) in Malaysia.

Overview of the Organization

AMZ INDUSTRIES (AMZ) was established on September 5, 1995 by Mr Zainal and Mr Malik as his partner. This company is located at Lot 910, Gong Badak Industrial Area, Kuala Terengganu, Terengganu, Malaysia. The company was inherited from Mr Malik's father who ran a furniture company. The company was established with an authorized capital of RM100,000 and a paid-up capital of RM150,000 by both Mr Zainal and Mr Malik.

The company name, “AMZ” represents the three owner's names, Mr Azmi (Mr Malik's father), Mr Malik who has Bachelor in Quantity Surveying from Universiti Teknologi Malaysia (UTM) and Mr Zainal who graduated from UTM with Bachelor Architecture and has more than five years of experience working in several private companies. Today, Mr Zainal and Mr Malik had expanded the business to several of activities. Their business nowadays is focusing on furniture and constructions, trading raw material as well as trading office furniture.

Mr Zainal and Mr Malik are highly experienced in what they are doing. Mr Malik is specialized in handling the management cost as well as getting the tender from the government. Mr Zainal on the other hand is specialized in design, art and management and he mainly involved in the furniture production department. In making decisions, they prefer to make the decisions together.

In the furniture department, in term of machinery, the company has enough capacity to hold a mass production line as they had already did it for the government project in supplying chairs and tables for the school. The uniqueness about AMZ is, the company does

not only offers their product, but they also compliment it with interior design consultancy services for free. The company also produces excellent quality products at an affordable price which has made the company the 1st choice among clients. However, in making good quality products, they faced problems in acquiring their raw material as it is limited (Meranti Woods).

Looking into the Accounting Department, the Account Manager is responsible for auditing and accounting work which includes bookkeeping, checking on all the accounts, salary payments, payable accounts and receivable accounts until submission to audit. In addition, she also has other administrative duties like managing human resources as well as operations. She directly reports to the Managing Director as well as other Executive Director.

The company has their own accountant and uses outside firm to audit their accounts. However, the company does not have a proper accounting system as they mixed up the accounting for the constructions, furniture and the trading. As a result, the account could not show the performance from each of the department. The company also could not provide the recent account to the owner thus affecting their decision making process. Based on the accounting record, the company obtains minimal profit margin for the last 3 years.

The company has 3 types of customer. The first type is from the government organization, the second type is from private companies or contractors and the third type is from the open market customer or household. Mainly, the company focuses on the tender from the government because it is more stable than the other. Because of that, there was not much effort made to promote their product in the private sectors as well as to the household sectors. With the current political and economic situation, the dependency to the tender from the government seems to be hard for AMZ.

The Business Challenges and Success Factors

In the early stages of doing business, AMZ did not have a proper place to produce its furniture. As a result, they failed to obtain business premise certificate as well as loans. A year later, AMZ moved to an industrial area and rented two lots of land to build their factory there. Besides that, the major challenge faced by the company is the ability to maintain and enhance the product's quality and in particular related to the prices of raw materials especially the imported ones. On the other hand, insufficient foreign labors as well as high local workers' turnover put the company under a lot of pressures.

Many factors had contributed to the success and survival of AMZ today. These factors are both internal and external. The main internal factor is the Managing Director himself. The Managing Director has a clear vision and mission to bring the company to the global standard. In addition to that, he is a very dedicated and committed person. Furthermore, AMZ has joined by skilled personnel, it also has the latest technology in manufacturing processes that meet stringent guidelines set by international standard. For example, the Germany Board Certification has recognized AMZ as one of the manufacturer that has superior quality system. At the moment, the company is using computer aided machinery in almost all their manufacturing process starting from the design stage by using Auto-CAD for the fabrication of programmable computer punching, CNC bending and cutting machine.

Furthermore, they have technologies from their business alliances and linkages with world class manufacturers, which enable them to further enhance their ability to deliver

superior quality products that surpass international standards. Moreover, they are always getting their customers' feedback on their products which enable them to improve their existing products as well as creating new inventions. The same goes for the company's research and development team of qualified and experienced engineers who design and engineered their products to meet the customers' requirements. Another internal success factor is that their products' quality and technologies used are much better than their local competitors.

On the other hand, the success of AMZ also contributed by external factors. AMZ's products have the MADE IN MALAYSIA brand seal and a MALAYSIA's branded products are well received in various countries for their excellent quality. However, AMZ has difficulties to meet the demand from abroad due to their lack of capital and machineries.

Does a Business Advisory Service Help?

Regarding the service quality provided by the external audit and secretary firms, AMZ only rates them 50% out of 100% because their auditor does not provide them with any comment, recommendation or advice regarding the business and how they can overcome their current obstacles or how to further enhance the business. Besides helping them with the pioneer status application, in fact, not even once their external audit and secretary firms' secretary or auditor went to the business premise to offer advice to them. According to En Mr Zainal's secretary, "They did not even come. Never come before. I just took my things, my bills to give to them. Maybe I am still a newbie" That is why she feels that those services did not add any value to the company's business at all as she did most of the things on her own.

On top of that, their auditor did not offer the company any advices and can't even produce a solution to the financial problem that AMZ is currently facing. Even though AMZ had already prepared and provide all the necessary information to them, the auditors still could not come up with a proper answer. AMZ is not adequately equipped with business knowledge and strategic management approaches since both the Managing Director and Executive Director (Mr Zainal and Mr Malik) are from a technical background. For example, AMZ is facing some difficulties in filling up the application forms and preparing business plan for a fund from a government body and their auditor could not help as the auditors themselves are lack of knowledge even though auditors are supposed to be well-versed in this aspect. As a result, AMZ had to find the service from other company to solve the problem.

AMZ also noticed that the service fees charged by the outsourcing companies or consultant are quite expensive and it appears to be a burden for SMEs like theirs which have no guaranteed of having constant sales. He felts that the fees do not commensurate with the quality of service given. As for the updates on the latest tax regulations, Mr Zainal prefers to attend seminars and exhibitions conducted by government agencies instead of attending the ones conducted by Small and Medium Accounting Practices(SMPs) as the fees charged are too expensive.

Besides looking for financial and accounting services or advices, AMZ also needs assistance in the production section. The company needs an agency which can analyze and advise them on how to improve their production. They want advice regarding how to control

their business cost as well as other advices that is beneficial to the company. In addition, AMZ also needs a seminar on product exportation to gain detailed information on the requirements needed in order to export their products. In the future, the company hopes to have their own internal accounting department in the company as well as the ability to penetrate into the overseas market. AMZ also hopes that university's setup consulting wing or government related agencies can offer assistances to companies like them regarding the accessibility to obtain funds and equipment in order to remain competitive in the market.

SMEs at a growing stage like AMZ is generally satisfied with the level of services given by government agencies, although there is some difference in terms of service quality. They tend to acquire assistance from the government to assist the company to become a public listed company and also to penetrate into the international market. Findings also show that, the company faces challenges in tax planning and they need to be equipped with the latest management tool to help improve their business performance. Currently, the company uses basic management techniques to manage their business. The most common techniques used are ratio analysis, budgeting, product costing and standard costing.

Questions of Concern

- 1) Are outsourcing accounting, tax and auditing functions to the external parties must be continued?
- 2) How can AMZ still stay competitive in the furniture industries which dominated mostly by non-Bumiputras (Indigeneous) in Malaysia?
- 3) How can AMZ increase the company's market share by utilizing the resources they had today?
- 4) Will AMZ has the capabilities to penetrate into the overseas market?
- 5) How can AMZ prepare itself for the future structurally, internally, externally and competitively as a family business?

Conclusion

Even though many challenges and issues faced by AMZ and several solutions taken place, however, it seems like AMZ had difficulties dealing with them. In order to remain competitive and moving forward, AMZ need to reevaluate the company's strategic plan and always has preventive ways to resolve problems in the business. AMZ is considered as a successful Bumiputra (Indigeneous) company in the furniture production industry, which joined by skilled and experienced personnel, it also nominated as the 1st choice among clients in terms of product quality, consultancy services and affordable prices. The expectation has risen among clients and it is a responsibility for AMZ to maintain their performance to be remained the 1st choice among clients in the future.

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